Når bærekraft blir business

Finansbransjens rolle

Herlaug Louise Fyhn, DNB @UiB SDG day zero, 10. februar 2021

Langsiktig verdiskapning

E — Environmental

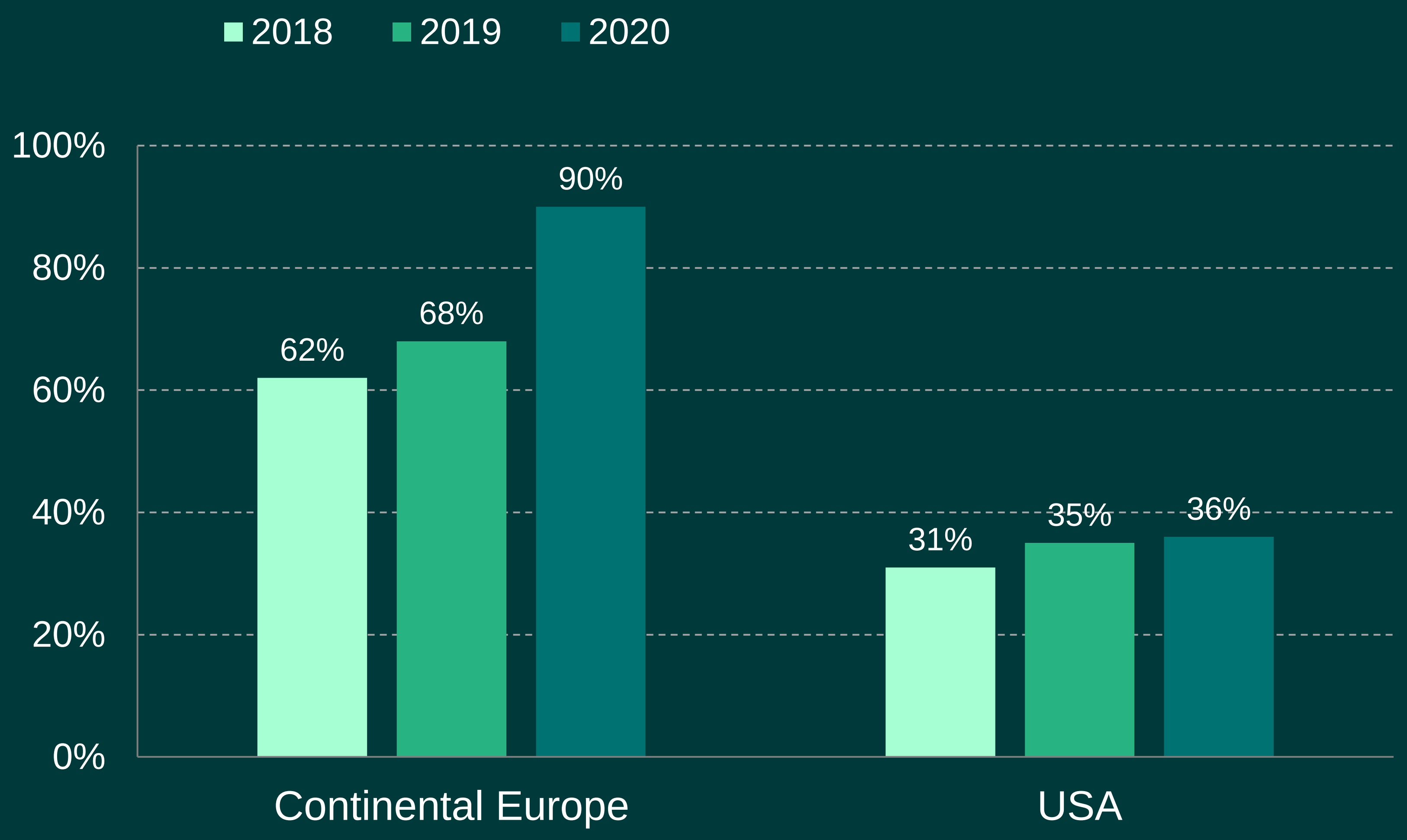
S — Social

G — Governance

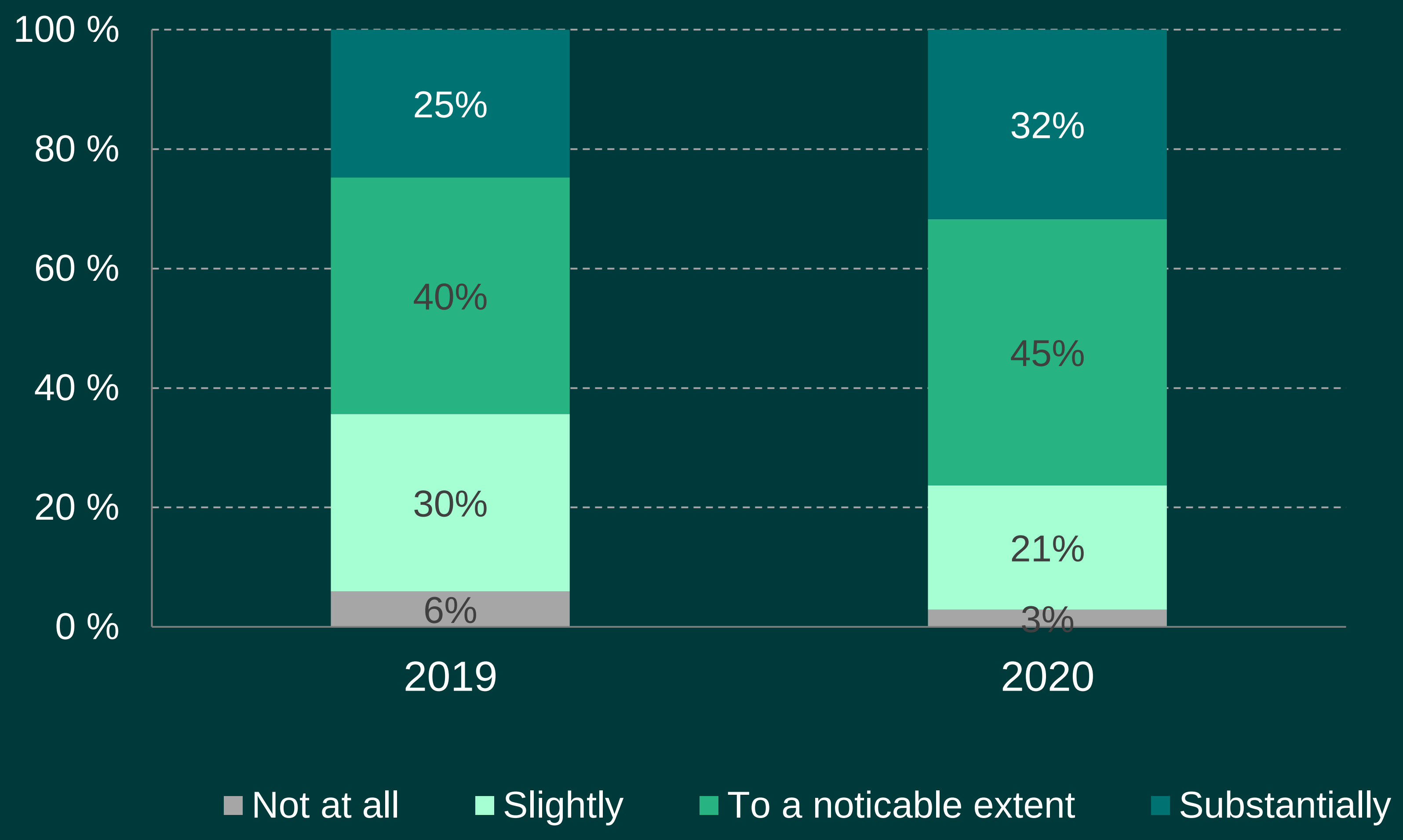
PRB Futureproofing PRI Sustainability SBT Triple bottom line TCFD WBCSD CSR

Økt fokus på bærekraft i bransjen

Forvaltere med egne ESG spesialister 1)



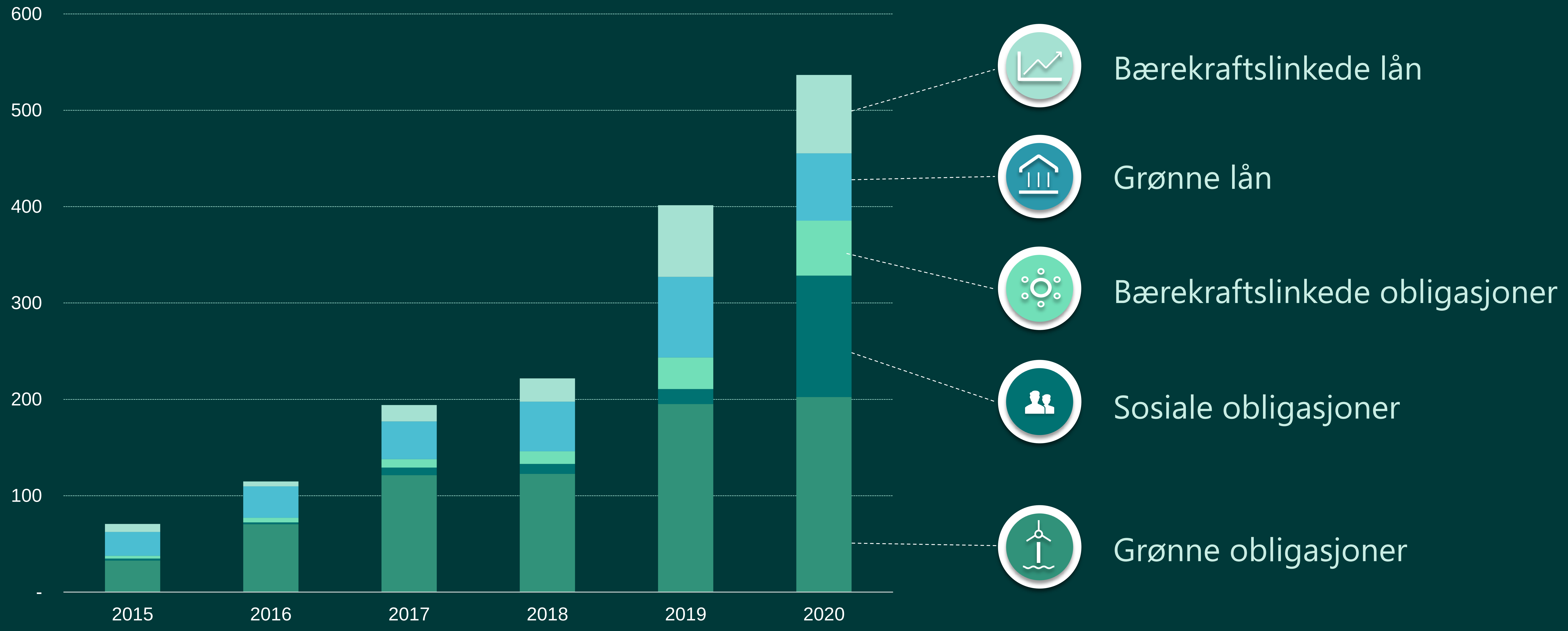
"Over the next five years, I would expect our organisation to change its allocation of capital away from activities challenged by environmental and social issues, or towards activities that promote positive environmental and social outcomes"



- 1. Source: Russel Investments, "2020 Annual ESG Manager Survey"
- 2. Source: HSBC, "Sustainable Financing and Investing Survey 2020"

MARKEDSUTVIKLING GRØNN FINANS

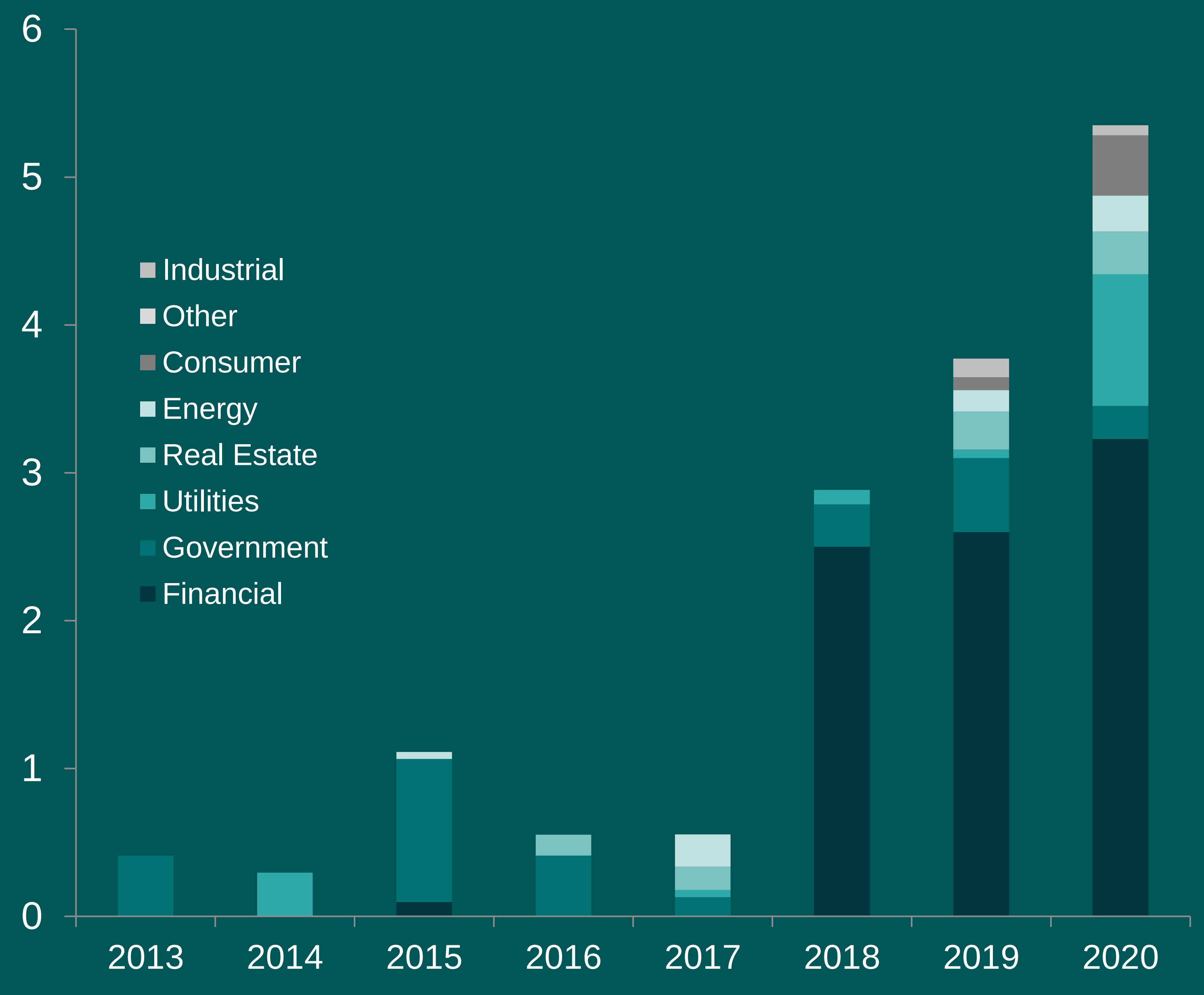
Markedet for bærekraftige lån og obligasjoner i sterk vekst



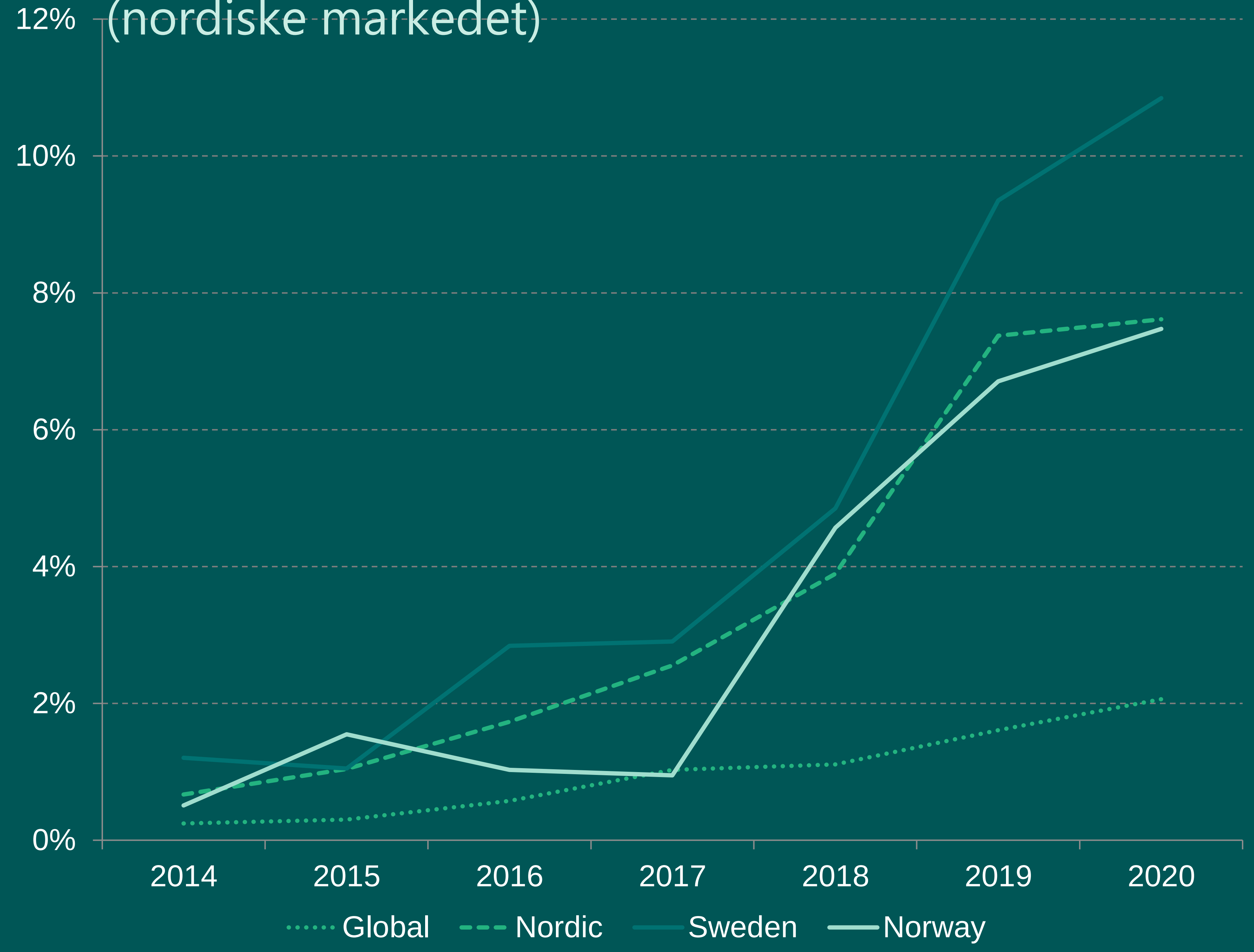
Utstedt volum, milliarder EUR

Markedsutvikling grønne obligasjoner Norge

Utstedt volum Norge, milliarder EUR



Andel bærekraftige obligasjoner ift total utstedt volum (nordiske markedet)



Oppsummering fra DNB Markets

MARKEDSUTVIKLING GRØNN FINANS

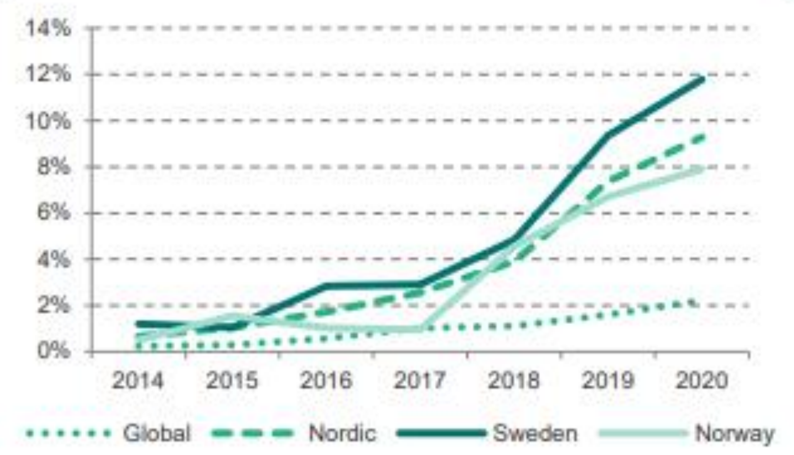
The Nordic sustainable bond market

In the Nordic market, issuance grew less than what we have become accustomed to over the past few years. Despite a somewhat muted momentum, the market still grew relative to the overall Nordic bond market where the share of sustainable bonds reached 9%, up from 7% in 2019. In 2020, we also saw the first sovereign green bond in the Nordic region, issued by the Swedish government. The Norwegian market stands out with the highest growth rate among the Nordic countries, mainly led by increased issuance from the financial and utility sectors.

Chart 6: Annual issuance per country (EUR bn)

Source: Bloomberg, DNB Markets

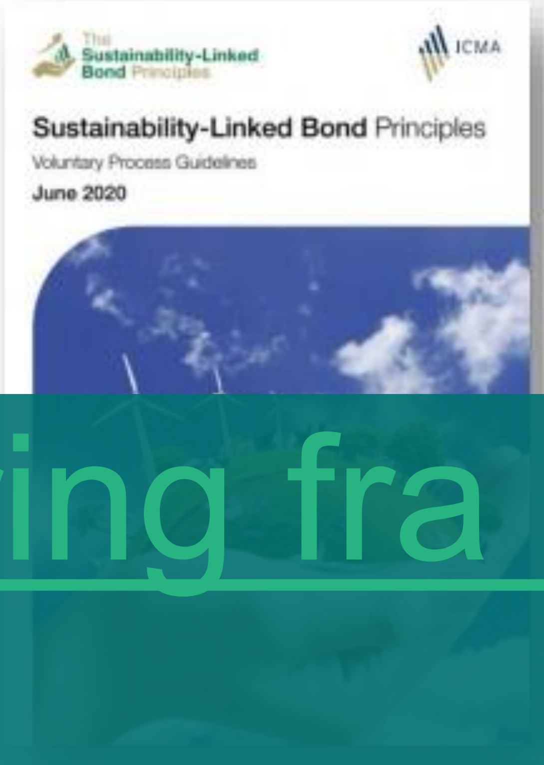
Chart 7: Share of bond issuance with sustainable label



Source: Bloomberg, DNB Markets

Product innovation

In 2020, we also saw the sustainable bond product portfolio expand. In June, the International Capital Markets Association (ICMA) launched the official Sustainability-Linked Bond Principles. In contrast to green and social bonds, where proceeds are earmarked for specific purposes, sustainability-linked bonds are for general corporate purposes and the financial terms of the bond can change depending on the issuer's sustainability performance. As an example, the coupon could increase if the company fails to deliver on a predefined sustainability performance target, such as a reduction of CO2 emissions.



There has been varying views in the market when it comes to sustainability-linked bonds. Some investors prefer green and social bonds as they clearly demonstrate how the proceeds are used. Others appreciate that sustainability-linked bonds provide a connection between the company's overall sustainability strategy and their financing, rather than focusing on specific projects.

From an issuer perspective, sustainability-linked bonds can be relevant to explore for several reasons. For some issuers and businesses, earmarking of proceeds can be a challenge due to capital-lite business models and/or lack of green assets, making it difficult for them to access the green bond market. However, such companies might still have highly ambitious sustainability objectives. In such cases, sustainability-linked bonds can help issuers efficiently demonstrate these ambitions towards investors.

The sustainability-linked feature has become fairly common in the loan market, but we have so far seen a limited number of sustainability-linked bonds being issued. We do however expect this market to grow significantly going forward and we see these bonds as a highly relevant complement to, not a replacement for, green and social bonds.

Regulations on the horizon

As 2021 is upon us, we are also entering a more regulated space when it comes to sustainable finance. The EU's action plan for financing sustainable growth, launched in 2018, and followed by the EU Green Deal in 2019, has put the EU in the front seat when it comes to setting ambitious sustainability targets. In 2021, new disclosure requirements for investors kick in, and with the introduction of the EU Taxonomy, stricter definitions of environmentally sustainable – or "green" – investments come into play.

In March 2020, the EU's Technical Expert Group (TEG) published their final Taxonomy report with proposed criteria for defining environmentally sustainable activities. In November, the EU Commission published their version, in the form of draft delegated acts with a consultation period that ended on December 18th. Approximately 47,000 responses were received, most likely a few more than expected. Adoption had been planned for year end 2020, but due to the high number of comments, the Commission has indicated that the timeline might be slightly pushed.

There are still many question marks around how the EU Taxonomy will work in practice, and what it will mean for various sectors, companies, investors, and products. One thing to remember is however that the EU Taxonomy is first and foremost a reporting requirement. It is not a list of which activities banks or investors can or cannot finance. At the outset, we can assume that the Taxonomy-aligned share of the investible universe will be very low. As a reference, Norwegian pension fund KLP recently published a test screening together with the UN PRI of one of their global equity funds, concluding that approximately 5% of the fund's holdings could be expected to be Taxonomy-aligned.

Aiming for a 100% Taxonomy-aligned portfolio might not be technically feasible in the short term, nor might it be a relevant sustainability strategy. To meet the Paris Agreement, the share of Taxonomy-aligned assets must increase over time. This means that we cannot only invest in what is already green or Taxonomy-aligned today, we must invest in the transition so that there will be more green assets in the future.

What does the EU Taxonomy mean for green bonds?

The TEG has proposed that a voluntary EU Green Bond Standard be implemented. The proposed standard builds on existing market practice, primarily the ICMA Green Bond Principles, but with the addition that bond proceeds should be earmarked for Taxonomy-aligned investments. If the requirement will be for 100% of the proceeds, or above a specific threshold, remains to be seen.

Having a voluntary EU Green Bond Standard in place does not mean that all green bonds going forward must meet this standard. If you want to issue an EU Green Bond, or a Taxonomy-aligned Green Bond, then yes – you need to follow the EU Green Bond Standard. But the option to follow current market practice, and reference the ICMA Green Bond Principles, is expected to co-exist.

For the green bond market, we expect that there will be various standards in place for the foreseeable future. Some will follow the EU Green Bond Standard (referencing the EU Taxonomy), some will follow the ICMA Green Bond Principles and some may refer to a combination thereof. In addition, we have the Climate Bonds Initiative's standard for green bonds as well as other regional standards and guidelines. This does not necessarily mean that one standard is neither easier nor better than the other. The various standards have been established to provide relevant guidance for specific sectors and regions, and thereby ensuring transparency and integrity in the market. Irrespective of standard, you still need an external certification that confirms the environmental benefits of the investments to be able to credibly call the bond "green".

As the new EU disclosure regulation is implemented in 2021, investors will need to report on the share of their assets that is Taxonomy-aligned by January 2022. This means that transparency and reporting around the Taxonomy-aligned share of bond proceeds or the issuer's turnover/investments will be relevant irrespective of the type of bond, green or not.

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